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SUBJECT: AGRICULTURAL GROWTH AND DECLINE: THE COMPLEXITY OF RURAL
MAHARASHTRA

REF: A. A. 06 MUMBAI 1266

[1](#)B. B. 06 MUMBAI 2054

[1](#)C. C. 09 MUMBAI 0130

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[1](#)1. (SBU) Summary: Although Maharashtra is the most industrialized state in India, over half of its population lives in rural areas, with many dependent on agriculture for their livelihood. For decades, a succession of state and central governments has selectively and incompletely promoted agricultural growth. Factors as diverse as political patronage, opportunities for migration, and soil conditions have created wide and increasing disparities in income and productivity between regions. With nearly 7,000 suicides in the region since the beginning of the decade, the problems of the Vidharbha farmer in eastern Maharashtra have become synonymous with the agrarian crisis that affects parts of India. Despite a series of measures in the last year, including a farm loan waiver and a rise in the support price for cotton, agricultural researchers and experts believe that these programs have yet to have a significant impact on farmers' income in the state.

[1](#)2. (SBU) However, rural Maharashtra's assessment of government agricultural policies is complex and does not necessarily affect voters' behavior. The problems of rural Maharashtra vary from region to region, and agricultural experts advise that a "bottom-up" approach be used to address its diverse agricultural challenges. In this and two subsequent cables, we will try to assess the efforts of the Congress Party-led coalitions in the state and at the center in promoting rural growth in Maharashtra, and its likely impact on voter attitudes. End Summary.

The Agriculture Sector Remains Declining Portion of India's Growth

[1](#)3. (U) The Indian agricultural sector has exhibited four years of relatively good growth on account of good rainfall, which led to good crops and overall favorable commodity prices. However,

the share of the agricultural sector as part of the total GDP has continued to decline. The agricultural sector accounted for only 18 percent of Indian GDP in 2007-08 as compared to 55 percent in 1950-51. However, agriculture continues to be the main occupation for much of rural India who comprise 70 percent of India's one billion-plus population. Nanasaheb Patil, the Principal Secretary for Agriculture for the Government of Maharashtra (GOM), noted that the last fifty years of development has not led to a shift of population from agriculture to industry. He pointed out that 58 percent of the population in Maharashtra -- a relatively more industrialized state -- lives in rural areas, and 80 percent of the state's rural population depends on agriculture (New Delhi will report more on the rural economy septel).

Regional Disparities in Rural Maharashtra

14. (SBU) Within India, the state of Maharashtra is marked by the co-existence of mixed rural pockets of affluence and absolute desperation. Sugarcane barons in western Maharashtra, grape growers in Nashik, and horticulturalists in Pune -- all in the north-south belt known as Western Maharashtra -- earn huge incomes. The Konkan region, south of Mumbai along the Maharashtra coast, has some of the highest rainfall levels in India, but much of it quickly washes into the sea, limiting farmers to growing only one rice crop per year. Meanwhile, the poor cotton farmers of eastern Maharashtra's arid Vidharbha region face a lack of infrastructure, roads, and irrigation in their struggle to survive.

15. (SBU) One of the main reasons for this disparity -- beyond climatic conditions -- is politics. Three-time Chief Minister, Nationalist Congress Party (NCP) head, and now Union Minister for Agriculture, Civil Supplies, and Consumer Affairs, Sharad Pawar is from Western Maharashtra, and politicians from that region -- largely a dominant caste known as Marathas -- have

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formed the backbone of almost every state government. State governments have ensured that irrigation projects brought water to the sugar growing areas of Western Maharashtra instead of the nearby Konkan region. On a recent trip to Konkan, farmers told ConGenoff that despite having three Chief Ministers from the region, none of them were able -- or willing -- to pry away irrigation projects from Western Maharashtra to irrigate lands on the coast. Agricultural researcher Ajay Dandekar blamed "sugar politics" for much of Maharashtra's agrarian challenges. He pointed out that sugarcane productivity in the state has been falling over the last decade. However, three-fourths of the water resources of the state are still diverted to irrigate the water-guzzling crop which accounts for less than 10 percent of the state's land under cultivation. The Maharashtra government's active promotion of the sugar industry distorted cropping decisions and led farmers to plant sugarcane in areas unsuitable for cultivation, he added.

16. (SBU) According to Dandekar, each major politician in Maharashtra or his family control at least one sugarcane factory or one sugar co-operative. Sugar lobbyists became so powerful that they prevented the growth of any other lobbyists, barring the wine (grape) industry which is also in a sugar- dominant area of the state. As a result, the Maharashtra government has traditionally promoted policies favoring the sugar and wine industry over the cotton sector. For example, local wines made with Maharashtra-grown grapes are exempt from excise duty until December 2011, while out-of-state and foreign wines made with grapes grown outside Maharashtra pay duties ranging from 150 to 200 percent of the manufacturing cost. The government has also mandated a compulsory blending of 5 percent of ethanol (made by fermenting sugar) with petrol. (Comment: Both the sugar and wine industries have the financial resources to support the patronage and "pork barrel politics" of Maharashtra. Sharad Pawar has a grape named after him called Sharad Seedless grape. According to the media, Pawar's family owns vast lands in the sugar and grape growing regions of the state. Pawar's vote base

does not extend to Vidharbha. See Ref C for more on Pawar. End Comment).

17. (U) Nevertheless, according to GOM's Patil, the current Congress Party led-United Progressive Alliance (UPA) government has adopted a rural focus and emphasis on growth in rural India.

(Note: In India, the responsibility for agricultural development lies with individual states. Frustrated with the slow pace of agricultural growth, however, the UPA government has initiated a number of agricultural programs, discussed in New Delhi septel. End Note). The government has identified the development of an agricultural "exit policy" -- to take farmers out of farming and transfer them to other economic activities -- as one of its main priorities. Empowering farmers with education, skills and training to enable them to get non-agricultural jobs is the answer to uplifting farmers, Patil argued. The central government is also trying to shift farmers away from traditional agriculture like foodgrain cultivation to "new" agriculture which has higher margins, including horticulture, poultry, dairy, fisheries, and animal husbandry. The government has also implemented the Bharat Nirman program to improve rural infrastructure and enacted the National Rural Employment Guarantee Act (NREGA) to provide livelihood security to rural India. (The impact of these programs in Maharashtra will be covered septel). Working together, these programs can offer an alternative to agricultural employment and benefit the farmers through the development of rural infrastructure, while at the same time reduce rural India's dependency on agriculture.

Are Farmers Benefitting from Agricultural Development Programs?

18. (U) Mumbai agricultural specialists have mixed opinions about the success of the UPA government's programs for the agricultural sector. Despite four years of growth, the GOM's Patil asserted that most farmers in India are not reaping its benefits. The majority -- roughly 80 percent -- of Indian farmers are small and marginal, owning less than 2 hectares of

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land (roughly 5 acres). According to the Indian Agricultural Census, the number of landholdings increased from 71 million in 1970-71 to 120 million in 2000-01. The census data showed that the number of landholdings in Maharashtra increased from 8 million in 1970-71 to 12 million in 2000-01, and that small and marginal farmers comprised 73 percent of total land-owning farmers in the state. Patil explained that increasing rural population in Maharashtra puts pressure on the small and shrinking landholdings, causing rural per capita income to fall even if agricultural incomes rise. He cited the huge population dependency on agriculture as the main reason for the continued impoverishment of the average Indian farmer in the state.

19. (SBU) Srijit Mishra, an agricultural researcher at the Indira Gandhi Institute for Development Research (IGIDR), maintained that government development programs for the agricultural sector are largely "piecemeal" and not on a scale large enough to reach all farmers. According to him, the UPA government did not invest "where people matter." For example, he pointed to the government's freeze on recruiting teachers for rural schools in Maharashtra, an area already hard-hit by the lack of trained teachers and frequent absenteeism. He also blamed poor overall productivity for many of the Indian farmer's problem. In a study conducted by Mishra, he found that the average return to farmers was around 16 cents per capita per day in 2003. Mishra claims that even if this were doubled (which according to him is not possible), the farmer would currently receive an average return of around 32 cents each day which is less than the cost of five kilograms of rice (Note: Data on farm income is incomplete and varies greatly from state to state. These numbers are clearly on the low end of estimates. End note.)

110. (SBU) However, Veena Mishra, the Chief Economist of India's largest tractor manufacturing company, Mahindra & Mahindra, applauded the intentions behind the government

programs, but expressed concerns about their administration and implementation (septel). Nevertheless, she admitted that the current UPA government focused on rural growth and invested more heavily in agricultural programs -- including infrastructure like roads, electricity, and markets -- as compared to the previous National Democratic Alliance (NDA) government. There has been a substantial upward revision of the Minimum Support Price (MSP) for many crops, including cotton, under the UPA government which has raised agricultural incomes, she added. Another IGIDR professor noted that the vast heterogeneity of states -- in terms of climate, people, governance, and infrastructure -- makes "one-solution fits all" policies impossible in India. In 2006-07, the Planning Commission has mandated that each district adopt a "bottom-up" approach for its development plans. The professor hoped this will kick-start "needs-based" development planning for each district in the country.

Farmer Suicides in Maharashtra Continue Despite Loan Waiver Package

¶11. (U) The desperate condition of many farmers is starkly visible in the Vidharbha region in eastern Maharashtra where nearly 7,000 farmers committed suicide during 2001-06. (Note: A study by the Madras Institute of Development Studies showed that the rate of farmer suicides per 100,000 population was 29.9 in Maharashtra and 19.2 in Andhra Pradesh in 2001. The comparative figures for the southern states of Pondicherry and Kerala were much higher at 834.9 and 142.9, respectively. The general suicide rates in these states were also significantly higher than that observed in Maharashtra and Andhra Pradesh. The suicides in this region have attained national attention due to the concentration of suicides among farmers in this region, as well as the sheer numbers of suicides. Statistically, farmers across the world are more prone to suicide than other occupations. End Note). Traditionally, cotton has been the main crop in Vidharbha, although farmers have recently also diversified into growing soyabean. IGIDR's Mishra explained

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that the geologic characteristics of Vidharbha are not conducive to water harvesting. So, the drought-prone region is under dry land farming and largely dependent on rainfall. Historically low cotton prices, coupled with the high cost and risk of growing cotton in a drought-prone, non-irrigated area, has, over time, depressed the returns to the Vidharbha farmers. In meetings with Vidharbha-based interlocutors, ConGenoff learnt that even with irrigation, only 40 percent of the region's farmland could be irrigated because of the region's geography and topology.

¶12. (U) The GOM's Patil said that cotton cultivation requires a minimum investment of USD 360-500 per hectare. Therefore, "shocks" like crop failure due to low rainfall or spurious inputs (usually fake seeds), unexpected medical expenses, or social obligations like weddings, can cause the farmer to fall into a self-perpetuating and never-ending debt trap, he explained. Mishra observed that the average outstanding debt of the Vidharbha farmer is USD 500-800 from multiple sources including banks and moneylenders. Nevertheless, GOM's Patil opined that the social stigma attached to non-payment of debts and the sensitive nature of farmers may cause him to end his life. (Note: See ref A and B for more details about farmer suicides in Vidharbha. End Note).

¶13. (U) In 2005 and 2006, the central government implemented two relief and rehabilitation packages amounting to USD 965 million for Vidharbha farmers that included debt rescheduling, interest payment waivers, cash disbursements, and funds for improved irrigation and water harvesting. However, a recent report on farmer suicides and debt waivers by Narendra Jhadav, the former Chief Economic Advisor to the Reserve Bank of India, found that "there was no significant decline in the absolute number of farmer suicides in Vidharbha even after two years of implementation of these packages." According to Maharashtra

state government data, 1,241 farmers in Vidharbha committed suicide in 2007, as compared to 1,448 farmers in 2006.

¶14. (SBU) In 2008, the government announced a USD 12 billion debt waiver and debt relief program for marginal and small farmers across India. Of this, USD 2 billion has been allocated for farmers in Maharashtra. Both Patil and Mishra of IGIDR noted that the farm loan waiver program had limited applicability and impact as it only applied to loans taken from public sector banks and excluded debt owed to moneylenders, a large component of the overall lending, especially in Vidharbha.

At a recent conference, S. L. Shetty, the Director of an economic research institute, criticized the government's farm loan waiver program as being "too selective" and rewarding willful defaulters. He doubted whether the loan waiver truly solved the farmer indebtedness problem, and pointed out that suicides continued even after the program was announced. He argued that the government funds allocated for paying off farm loans would have been better spent on upgrading irrigation facilities and educating the farmer's families. Mishra of Mahindra believes that the farm loan waiver program created a "moral hazard" and destroyed the growth of rural credit culture.

She accused many farmers, who had the ability to pay, of using the waiver to excuse themselves from repayment of all dues and obligations.

Non-Farm Incomes Rising and Rural Sector Seen as a Huge Growth Opportunity

¶15. (U) However, some agricultural experts noted that while the agricultural sector is beset by challenges, non-farm rural income is growing (more on this septel from New Delhi).

According to the latest Central Statistical Organization (CSO) data, the non-farm sector accounted for 48 percent of rural GDP in 1999-2000, as compared to a 28 percent share in 1970-71.

Most of the growth in non-farm activity came from the manufacturing, hotels and restaurants, and construction sectors.

In a research report, Roopa Purushothaman of Future Capital Holdings, argued that the rural-urban disparities are slowly

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disappearing in India due to the rise of the non-farm sector which has become a key driver of rural growth. Another professor at IGIDR pointed out that agricultural income can only rise if productivity increases, since the government raises agricultural prices only occasionally. As farm income continues to stagnate, the share of non-farm income in rural GDP naturally rises, he argued.

¶16. (U) However, S. Chandrashekhar, an IGIDR researcher on urban-rural disparities, suggested that remittances from urban to rural India form a significant portion of non-farm rural income, particularly in Maharashtra. On ConGenoff's recent trip to the Konkan region, political leaders and journalists described the region's economy as a "money order economy." For over a century, children in farm families have been migrating to Mumbai for work and sending back money to their families. According to observers there, this consistent additional income enables farm families to survive on one rice crop a year, and compensates somewhat for the lack of irrigation and other agricultural development programs.

¶17. (U) Mahindra's Mishra has seen a gradual shift towards non-farm activities in rural India over the last five years. She was uncertain whether the shift was the result of government programs which employ rural household members to develop rural infrastructure projects or whether it was driven by rising economic growth. She noted that the non-farm sector which is driven by domestic savings and, therefore, unaffected by the global financial crisis, can feed off rising agricultural incomes even if urban consumption shrinks. Rahul Sharma, Head of Rural Information for Mahindra & Mahindra, emphasized that small and marginal increases in rural demand translate to huge payoffs to the corporate sector. India's total tractor manufacturing capacity is 850,000 tractors each year. Assuming

there are 85 million rural households (there are much more), then a one percent increase in rural demand for tractors would equal the entire tractor manufacturing capacity of India, he explained.

¶18. Comment: (SBU) As a large, complex, mostly rural state with climatic variations, there is no "one size fits all approach" to improving agricultural growth in Maharashtra. While the country's media focuses on the tragic condition of farmers in the Vidharbha region, farmers in other parts of the state have used government programs and policies to improve their living standards. This is a testament to the fact that some regions have been neglected while others have been richly rewarded due to political patrons, such as Sharad Pawar in Western Maharashtra. Going forward, centralized policymaking may not be the best recipe for addressing localized rural problems, but state bureaucracies -- including agricultural extension networks -- are usually not prepared to meet these challenges. Indeed, agriculture is the Constitutional responsibility of Indian states, and it was only after five decades of neglect that the central government started developing programs and committing resources towards the agricultural sector. As a result, it is possible that district-level policymaking and resource allocation, coupled with improving non-farm incomes for the region, may provide a better future for farmers in Vidharbha and elsewhere. However, even "bottom-up" plans for agricultural development require centrally planned infrastructure development -- such as roads, power, and irrigation -- to be successful. In the next cables in this series, we will look at how these programs shape voter attitudes and behaviors. End Comment.

FOLMSBEE